

VZCZCXRO0006  
OO RUEHROV  
DE RUEHTV #0515/01 0471043  
ZNY CCCCC ZZH  
O 161043Z FEB 07  
FM AMEMBASSY TEL AVIV  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9470  
INFO RUEHXK/ARAB ISRAELI COLLECTIVE IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
RHEHNSC/NSC WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 000515

SIPDIS

SIPDIS

NEA/FO FOR DANIN; NEA/IPA FOR WILLIAMS, SHAMPAINE,  
BELGRADE, ZIMMER; EB/IFD FOR GARRY; NSC FOR ABRAMS, DORAN,  
WATERS; TREASURY FOR HIRSON

E.O. 12958: DECL: 02/15/2017

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ETRD](#) [EAIR](#) [MASS](#) [IS](#) [KWBG](#)

SUBJECT: FINANCE MINISTER HIRCHSON LOOKS TOWARDS HIS LEGACY

Classified By: Ambassador Richard H. Jones for reasons 1.4 b and d.

-----  
Summary  
-----

11. (C) Finance Minister Avraham Hirschson, seemingly distracted by the corruption allegations swirling around his ministry and around him personally, emphasized his accomplishments after eight months in office and stressed the importance of ensuring that future finance ministers not be able to easily undo the policies he is putting into place. To this end, he is establishing an advisory committee of academics and business people to assess where Israel's economy should be in ten years. With sound long-term planning, he believes, the economy would "take care of itself" on a year-to-year basis. He stressed the importance of the forthcoming bilateral meetings in Washington and said that he asked Bank of Israel Governor Stanley Fischer to participate in them. Regarding relations with the BOI, Hirschson said that despite some difficulties, he and Fischer never disagree publicly, and Fischer has been supportive of his economic proposals. Hirschson endorsed the Ambassador's suggestion that the U.S. - Israel Free Trade Agreement (FTA) be enhanced, e.g. to include the service sector. He also agreed with the Ambassador's assessment of the importance of a transparent government bidding process and the need for an ombudsman to help companies navigate the bidding process. On banking reform, newly-appointed MoF DG Ariav said there is a need to open up the Israeli banking sector, but that it would not happen very quickly. Both he and Hirschson responded very positively to the Ambassador's recommendation that Israel consider promoting Arabic language study in Israeli-Arab communities for Americans and other foreign students. They also expressed support for joint Israeli-Palestinian business ventures, such as those to be discussed at the Ambassador's then upcoming Palestinian Economic Seminar. End Summary.

-----  
New Security Assistance Request  
-----

12. (C) The Ambassador, EconCouns, and Dep EconCouns met with Hirschson on February 12 at the Ministry of Finance in Jerusalem. Also attending were MoF DG Yarom Ariav, his Senior Advisor Rani Loebenstein, and Personal Advisor to the Minister Kobi Shalom. In discussing the forthcoming bilateral meetings in Washington on assistance (March 1) and the Joint Economic Development Group (JEDG - March 2), the Ambassador noted the likelihood of a new Israeli request for security assistance and said that it may be time to consider attaching the same sort of conditionality to military

assistance as is presently attached to the Loan Guarantees under the 2003 U.S.- Israel Loan Guarantee Agreement. DG Ariav stressed the continued importance of U.S. military assistance, observing that the growing military threats facing Israel outstrip the ability of the Israeli economy to counter them, even with the economy enjoying tremendous growth. To underscore the importance Israel attaches to both sets of talks, Hirschson noted that he asked Bank of Israel (BoI) Governor Stanley Fischer to attend them.

-----  
Uneasy Relationship with the BoI  
-----

13. (C) Regarding relations with the Bank of Israel and Fischer, Hirschson said that he and Fischer agreed early on never to air any disagreements publicly. However, the MoF's inability to help solve the ongoing wage disputes within the BOI has sometimes soured relations between the two organizations. Hirschson said this makes it "not always easy to work with them," but added that these problems predated Fischer's arrival and "are not his doing." He then praised Fischer for his help on the recent reform package proposed by the MoF, the most important component of which is an attempt to institute a negative income tax.

-----  
Income Gap Slowly Narrowing  
-----

14. (C) In a review of his accomplishments during his eight months in office, Hirschson noted the massive emergency assistance provided to northern Israel in the wake of the Lebanon war, and the relatively easy passage of the 2007

TEL AVIV 00000515 002 OF 003

budget at the beginning of January without the need to spend exorbitant amounts of money to meet coalition members' demands. Regarding the need to narrow the gaps within Israeli society between the "haves" and the "have-nots," Hirschson said that things are moving in the right direction, but it will take time for his policies to take effect, even with a consistently strong economy.

-----  
Long-Term Economic Planning is Key  
-----

15. (C) Hirschson is establishing an advisory committee of academic and business people to study the issue of "where Israel's economy should be in ten years." Which economic model should it try to emulate - the Finnish one or the Irish? The Ambassador supported the idea, noting the importance of achieving consensus on this and building support for it in the business community and among politicians. Hirschson also said he is working with the government's legal advisor to figure out a way to obligate future governments to continue to act according to whatever long-range plan is ultimately adopted. He admitted, however, that it is not realistic to expect to be able to do so, since each government is free to set its own policies. He insisted, however, that it is vital for Israel to maintain a long-term economic horizon. By aiming for long-term success, the economy's year-to-year performance "would take care of itself." The Ambassador agreed about the importance of long-term planning, saying that it sends a signal of stability to the international financial community. This stability, together with a continuing economic reform program, will attract more international investment, which will, in turn, encourage even more reforms.

-----  
Enhance the FTA  
-----

16. (C) After EconCouns mentioned the need to include trade

issues such as Open Skies in the JEDG/LGA discussions, the Ambassador noted the importance of enhancing the U.S.-Israel FTA to update the trade relationship, e.g. to include selected service sectors. When Hirschson and Ariav both endorsed the idea, the Ambassador observed that this would require the support of Minister of Industry Trade and Labor Yishai who recently expressed the desire to shut down the "Wisconsin" employment program. Hirschson responded that Yishai would support the government's proposed economic reforms, regardless of his stance on the Wisconsin Plan, since the package was being presented to the Cabinet as a whole -- without the ability to vote on its individual parts.

The Ambassador praised the government's reform program, saying that it recognized the importance of the market and encouraged women to join the work force. Hirschson recounted a visit to the town of Modi'in Illit, during which he was surprised at the extent to which women had begun working in call centers and hi-tech companies. He stressed the importance of subsidizing day care centers, which allows mothers to work at regular jobs.

-----  
Transparency in Government Tenders  
-----

17. (C) The Ambassador raised the issue of transparency in government tenders, explaining that the USG has an on-line database which provides free and open access to all who might be interested in bidding on government contracts. He added that the USG also established a position for an ombudsman to hear grievances from private companies that perceive the bidding process to be in any way unfair. Establishing full transparency in bidding for government contracts and enhancing its IPR protections would also help fight corruption and help Israel in its bid to join the OECD.

-----  
Banking Sector Needs Competition  
-----

18. (C) On banking reform, Hirschson noted that this was within the purview of the BOI. However, Ariav pointed out the need for greater competition in the banking sector, where two banks control 80 percent of the market. He said there was a tremendous need for a large foreign institution to enter the market and shake things up. As a first step, it is more likely that a major money center bank will start

TEL AVIV 00000515 003 OF 003

competing in the Israeli market via the internet, before making the large investment required to actually open up operations here. When the Ambassador noted that more competition in the banking sector would benefit the entire economy, Ariav said that the recent opening of the insurance sector had already begun to benefit the economy as a whole. The Ambassador noted that an enhanced FTA could open up other parts of the service sector as well and increase competition throughout the economy.

-----  
Arabic Language Study in Israel  
-----

19. (C) When Hirschson mentioned spending USD fifteen million on tourism promotion, the Ambassador mentioned the idea of promoting Israeli-Arab communities as a safe and fully "authentic" place for interested Americans to come study Arabic, adding that the FBI already does some Arabic language training for its agents in Israel. Both Hirschson and Ariav seemed very receptive to the idea and said they would look into it.

-----  
Palestinian Economic Development  
-----

¶10. (C) On the Israeli transfer of USD 100 million in customs revenue to the Palestinians, the Ambassador noted that the Israeli decision to go ahead with the transfer was very important. He added that several hundred thousand dollars had already been released by Salam Fayyad for improvements at the Karni crossing. On the Palestinian Economic Seminar to be held the next day, the Ambassador explained that it would provide an opportunity for leading Palestinian business people to detail the negative effects of Israeli security measures in the West Bank on their business operations. He added that Israeli industrialist Stef Wertheimer is working on setting up a joint industrial park with Palestinian businessmen, which will focus on the manufacture of furniture. While international investors will be involved, the Palestinian businessmen -- in a sign of seriousness -- will themselves put up about 50 percent of the money involved.

-----  
Comment  
-----

¶11. (C) Minister Hirschson seemed somewhat distracted and unfocused throughout the meeting. He deferred to newly-appointed DG Ariav for reactions to many of the issues raised by the Ambassador, and became animated only in discussing his accomplishments and the need to prevent future ministers from deviating from his long-term economic plan. The morning papers had several stories reporting that the Attorney General's office was continuing the probe into Hirschson's possible involvement in corruption. One of the reports speculated that were he to be indicted, he would need to resign immediately. Hirschson is clearly unsure about his future in the government and seems to have begun to focus on his "legacy." End Comment.

\*\*\*\*\*  
Visit Embassy Tel Aviv's Classified Website:  
<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's Classified SIPRNET website.

\*\*\*\*\*  
JONES